



COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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WENDY L. WATANABE
AUDITOR-CONTROLLER

July 1, 2013

TO: Gail Farber, Director
Department of Public Works

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF PUBLIC WORKS PETTY CASH FUND – FOLLOW-UP REVIEW**

We have completed a follow-up review of the Department of Public Works' (DPW or Department) progress in implementing the nine recommendations from our October 27, 2011 report on DPW's Petty Cash Fund. In October 2009, the Auditor-Controller (A-C) provided a waiver for DPW to use petty cash to reimburse employees for parking expenses. The waiver was limited to employees who are not eligible to file mileage claims (non-permitees). DPW was previously reimbursing these employees through employee expense claims, and asked to use petty cash because DPW believed it was more expedient.

The purpose of our original review was to determine whether DPW's use of petty cash funds complied with the waiver and other County Fiscal Manual (CFM) requirements.

Results of Review

DPW has implemented six recommendations, and partially implemented three recommendations. The following are the original recommendations and their implementation status.

Parking Expense Waiver

Recommendation 1 – October 27, 2011

Report back to the A-C within 30 days with the status of corrective actions taken to address the control deficiencies in this report.

Current Status: IMPLEMENTED

In our original report, we noted several deficiencies in the Department's petty cash fund management, such as using petty cash to make payroll advances and commingling petty cash with other funds. On November 28, 2011, the Department reported back to the A-C that they had implemented or partially implemented all of our recommendations. Since the Department reported back with the status of corrective actions, we consider this recommendation to be implemented.

Recommendation 2 – October 27, 2011

Ensure mileage permittees use mileage claims to be reimbursed for parking expenses.

Current Status: IMPLEMENTED

In our original report, we noted that eight (50%) of the 16 petty cash parking reimbursements reviewed were for DPW employees who were mileage permittees. This violated the A-C's waiver, and CFM Section 13.12 which states that mileage permittees should be reimbursed by filing mileage claims.

During this follow-up review, we noted that none of the ten petty cash parking expense reimbursements reviewed were for mileage permittees. In addition, we noted that the Department reviews a mileage permittee listing prior to reimbursing parking expenses to ensure that the employee is not a mileage permittee. Therefore, we consider this recommendation to be implemented.

Employee Payroll Advances

Recommendation 3 – October 27, 2011

Immediately discontinue making advances to employees.

Current Status: IMPLEMENTED

In our original report, we noted five instances where DPW used petty cash to make payroll advances to Department employees. CFM Section 1.6.3 prohibits using petty cash to make loans to employees, except for pre-authorized petty cash purchases.

During our follow-up review, we reviewed the petty cash ledger for disbursements, tested a sample of transactions, and noted no instances where the Department made payroll advances after our original review. Therefore, we consider this recommendation to be implemented.

Recommendation 4 – October 27, 2011

Ensure Departmental payroll staff are trained on the proper procedures for underpayments and other payroll errors.

Current Status: IMPLEMENTED

In our original report, DPW management indicated that former management adopted a policy of making advances to reduce financial hardship for employees who did not receive a pay warrant due to payroll processing errors. CFM Section 3.2.3 states that, if an employee does not receive a paycheck or is underpaid, the department should notify the A-C and request a supplemental warrant. The A-C can process a check immediately in an emergency.

During our follow-up review, we noted that DPW management had conducted formal training on the proper procedures for preventing payroll errors and making appropriate corrections when necessary. Therefore, we consider this recommendation to be implemented.

Recommendation 5 – October 27, 2011

Review all petty cash transactions since the payroll advance policy was implemented, and ensure all advances have been repaid.

Current Status: IMPLEMENTED

DPW management informed us in 2011 that they reviewed all of their available petty cash records, which date back to September 2006, and identified 19 payroll advances. We reviewed these payroll advances and noted that 18 have been repaid, and that the remaining advance was planned but never issued. Therefore, we consider this recommendation to be implemented.

Cash Counts

Recommendation 6 – October 27, 2011

Ensure that fund custodians do not commingle petty cash with other funds.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that a fund custodian used both petty cash and his own funds to make change. CFM Section 1.6.3 prohibits commingling petty cash with other funds.

During our follow-up review, we noted that one petty cash custodian commingled two petty cash funds. DPW management identified the commingled funds prior to our review, and instructed staff to discontinue the practice. However, management did not follow-up to ensure that staff discontinued commingling these funds. Therefore, we consider this recommendation to be partially implemented. To fully implement this recommendation, management should continue to ensure that fund custodians do not commingle petty cash funds.

Recommendation 7 – October 27, 2011

Ensure that surprise cash counts of revolving funds greater than \$200 are completed quarterly as required by CFM Section 1.6.3.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that DPW conducted surprise cash counts annually for their revolving funds greater than \$200, instead of quarterly as required by CFM Section 1.6.3. Surprise cash counts enhance accountability for petty cash funds.

During our follow-up review, we noted that for two (10%) of the 20 petty cash funds reviewed, the Department did not conduct quarterly cash counts as required. Therefore, we consider this recommendation to be partially implemented.

In addition, we noted that DPW could not perform the two cash counts because the fund custodian was not available or did not have access to the safe. CFM Section 1.6.3 requires someone to have controlled access to petty cash funds in case the primary fund custodian is unavailable. DPW should assign back-ups for petty cash fund custodian.

New Recommendation

1. **DPW management assign back-ups to ensure that someone besides the petty cash fund custodian has controlled access to petty cash funds.**

Petty Cash Disbursement Receipts

Recommendation 8 – October 27, 2011

DPW management ensure that petty cash receipts are marked “paid” or otherwise cancelled.

Current Status: IMPLEMENTED

In our original report, we noted that for 20 (51%) of the 39 petty cash disbursements reviewed, DPW did not mark the receipts "paid". CFM Section 4.5.2 requires departments to mark receipts "paid" to reduce the likelihood of duplicate payments. During this follow-up review, we noted that for all ten petty cash purchases reviewed, the Department marked the receipt "paid". Therefore, we consider this recommendation to be implemented.

Petty Cash Purchasing Authority

Recommendation 9 – October 27, 2011

DPW management pay non-emergency expenditures using the eCAPS Online Vendor Payment Process instead of petty cash.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that for one (3%) of the 39 petty cash expenditures reviewed, the Department should have used the eCAPS Online Vendor Payment Process instead of petty cash. CFM Section 4.6.1 states that petty cash may only be used when emergencies exists, when prepayment is required, when immediate payment will result in a cost savings, or when a purchasing advantage can be achieved.

During this follow-up review, we noted that for one (10%) of the ten petty cash expenditures reviewed, the Department used petty cash to pay a late invoice. Management indicated a processing error in eCAPS cancelled the original payment document, and that it was more cost effective to make a payment from petty cash than to create a new payment document. However, the cost of creating a new payment document in eCAPS is not significant. DPW should ensure they pay non-emergency expenditures using the eCAPS Online Vendor Payment Process. Therefore, we consider this recommendation to be partially implemented.

Acknowledgment

We discussed our report with DPW management. DPW's attached response indicates general agreement with our report. We thank DPW management for their cooperation and assistance during our follow-up review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Audit Committee



GAIL FARBER, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

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IN REPLY PLEASE
REFER TO FILE: FI-2

May 22, 2013

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Gail Farber 
Director of Public Works

RESPONSE TO PETTY CASH FOLLOW-UP REVIEW

We are in general agreement with the results of your report. We are pleased that you found the majority of the recommendations implemented, particularly those regarding our compliance with the waiver to reimburse parking expenses to only non-mileage permittees and discontinuing the practice of making payroll advances. Since your follow-up review after October 2011, we took additional steps to comply with your recommendations and County fiscal policy. Please refer to the attachment for our input regarding those recommendations you deemed partially implemented.

We appreciate your staff's professionalism during this audit.

AC:dbm

P:\apub\INTAUDIT\OUTSIDE AUDITS\A-C Petty Cash - Parking Waiver\Follow Up Review\Response to DPW Petty Cash Follow-Up.doc

Attach.

**County of Los Angeles
Department of Public Works
Response to Petty Cash Follow-Up Review**

Recommendation 6 – October 27, 2011

Ensure that fund custodians do not commingle petty cash with other funds.

A-C Status: PARTIALLY IMPLEMENTED

Public Works Status: IMPLEMENTED

We concur with the partially implemented status as of the time of your review. We continue to follow-up by issuing annual reminders to employees about not commingling funds. We sent the most recent notification to employees on March 18, 2013. We also enforce compliance through surprise cash counts. Therefore, we consider this recommendation implemented.

Recommendation 7 – October 27, 2011

Ensure that surprise cash counts of revolving funds greater than \$200 are completed quarterly as required by CFM Section 1.6.3

A-C Status: PARTIALLY IMPLEMENTED

New Recommendation

- 1. DPW management assign back-ups to ensure that someone besides the petty cash fund custodians has controlled access to petty cash funds.**

Public Works Status: PARTIALLY IMPLEMENTED

We concur with the partially implemented status due to unavailability of a fund custodian to provide access to conduct a cash count. Some backup assignments are already established and the remainder are targeted for implementation by June 1, 2013.

Recommendation 9 – October 27, 2011

Public Works management pay non-emergency expenditures using the eCAPS Online Vendor Payment Process instead of petty cash.

A-C Status: PARTIALLY IMPLEMENTED

County of Los Angeles
Department of Public Works
Response to Petty Cash Follow-Up Review

Public Works Status: IMPLEMENTED

We disagree that this recommendation is partially implemented due to one (10%) of the ten petty cash expenditures you reviewed during the follow up. We processed the payment in eCAPS, but a system error cancelled the payment. Reprocessing in eCAPS required more than just creating a new payment document. It also required obtaining another purchase order (i.e. PRDO) involving the Internal Services Department. The associated purchase order was cancelled during year-end closing, and we were in a new fiscal year when we learned of the processing error. The effort to obtain a new purchase order and reprocess the payment was not cost effective for a payment of \$75. Utilizing petty cash resulted in a cost savings from reduced processing costs.

We agree that we should utilize the eCAPS Online Vendor Payment Process when applicable and limit petty cash to emergencies or other allowed uses per the County Fiscal Manual. We instructed affected staff accordingly.